

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AEC-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-05

SP-02 SS-15 STR-04 TRSE-00 FRB-01 FEA-01 PA-02 PRS-01

USIA-15 /109 W

----- 056393

R 131555Z DEC 74

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 0162

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION OECD PARIS

UNCLAS COPENHAGEN 3515

E.O. 11652: N/A

TAGS: ETRD, EFIN, DA

SUBJ: BALANCE OF PAYMENTS: NON-OIL DEFICIT DWINDLING

BEGIN SUMMARY: DENMARK IS APPROACHING THE GOAL
OF REMOVING HER NON-OIL PAYMENTS DEFICIT AS
RECOMMENDED, AMONG OTHERS, BY THE OECD, BUT AT
COST OF UNDER-ACTIVITY AND THE HIGHEST UNEMPLOY-
MENT RATE SINCE MID-50S. END SUMMARY.

1. UNPUBLISHED 1974 ECONOMIC ANALYSIS AND 1975

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FORECASTS BY THE GOVERNMENT'S ECONOMIC SECRETARIAT

INDICATE FASTER THAN EXPECTED IMPROVEMENT IN CURRENT BALANCE OF PAYMENTS. WHILE CURRENT PAYMENTS DEFICIT IN 1974 WILL REACH DOLS 1100 MILLION, MORE THAN TWICE LAST YEAR'S RATE, DIRECT ADDITIONAL COST FOR ENERGY ACCOUNTS FOR DOLS 900 MILLION. CONSIDERING INPACT OF UNDETERMINED INDIRECT ENERGY COST FACTORS, 1974 NON-OIL CURRENT ACCONNT PROBABLY SMWS EQUILIBRIUM OR BETTER WITH FURTHER IMPROVEMENTS IN THE OFFING FOR 1975.

2. PROJECTING PRESENT TRENDS, ECONOMIC SECRETARIAT EXPECTS CURRENT PAYMENTS DEFICIT, INCLUDING ENERGY, TO DROP TO DOLS 700 MILLION NEXT YEAR. CAPITAL IMPORTS, PRIMARILY BY PRIVATE SECTOR, THUS FAR HAVE PRESERVED RESERVE POSITION AT LARGELY UNREDUCED LEVEL, WHILE SIGNIFICANT AMOUNTS OF UNDRAWN FOREIGN CREDIT ARE HELD IN ADDITION. THERE HAVE BEEN NO PRESSURES AGAINST THE DANISH KRONE FOR THE LAST SIX MONTHS AND NONE ARE FORESEEN.

3. WITH OVERALL IMPORT PRICES UP ALMOST 40 PERCENT IN 1974, THE TRADE DEFICIT ROSE FROM DOLS 1300 MILLION IN 1973 TO DOLS 2100 MILLION IN 1974. ABSTRACTING THE DOLS 900 MILLION TRACEABLE TO ADDITIONAL DIRECT COSTS FOR ENERGY, THESE FIGURES ACTUALLY SHOW A MODERATE DECLINE IN THE NON-OIL DEFICIT. EXPECTATIONS THAT THE TRADE DEFICIT WILL DECLINE TO DOLS 1700 MILLION IN 1975 ARE BASED ON REASONABLE HOPES THAT A MODERATE PRICE DECLINE IN RAW MATERIALS AND STABILIZATION OF ENERGY COSTS WILL OFFSET THE EXPECTED PRICE RISES FOR INVESTMENT AND CONSUMER GOODS.

4. DANISH INDUSTRIAL EXPORTS BENEFITED FROM BRISK SALES IN EARLY 1974 AND ROSE 35 PERCENT ON AN ANNUAL BASIS (11 PERCENT IN REAL TERMS). WITH CURRENT SLACK, PROSPECTS FOR 1975 ARE NOT JUDGED FAVORABLY BUT THE EXPECTED SLOWDOWN MAY UNCLASSIFIED

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BE MITIGATED IF CONSUMER MARKETS ABROAD BECOME STIMULATED.

5. THE BEEF OVERSUPPLY SITUATION CURTAILED DANISH FARM EARNINGS IN 1974. THEY ROSE ONLY 5 PERCENT DESPITE FAVORABLE BACON AND DIARY MARKETS. IMPROVEMENT IS FORECAST FOR 1975. WITH LARGE GRAIN CROPS, DENMARK WILL BE A NET

GRAIN EXPORTER IN BOTH 1974 AND 1975.

6. DENMARK REGISTERED SIGNIFICANT FREIGHT RATE GAINS IN 1974 WHICH EXPECTEDLY WILL BE PRESERVED IN 1975. THE CONTINUING IMPROVEMENT IN THE SERVICE BALANCE IS ONLY IN PART OFFSET BY THE HEAVIER INTEREST COSTS INCURRED BY RISING FOREIGN CREDIT DRAWINGS.

7. IN REAL TERMS, NON-FARM IMPORTS DECLINED 6-7 PERCENT IN 1974 AND ARE EXPECTED TO DROP BY ANOTHER 3 PERCENT NEXT YEAR. REDUCED DEMAND RESULTED FROM A 25 PERCENT DROP IN RESIDENTIAL CONSTRUCTION, STAGNANT BUSINESS INVESTMENT, AND A 2-3 PERCENT DECLINE IN CONSUMER BUYING. WHILE HOUSING MAY FALL ANOTHER 25 PERCENT AGAIN NEXT YEAR AND BUSINESS INVESTMENT MAY DECLINE 6 PERCENT, CONSUMER DEMAND IS EXPECTED TO RECOVER AT THE RATE OF 3-4 PERCENT UNDER THE IMPACT OF INCOME TAX RELIEF, CONTINUED MONEY INCOME RISES, AND, HOPEFULLY, MODERATED PRICE INCREASES.

8. DANISH HOPES FOR CONTINUED IMPROVEMENT IN THE BALANCE OF PAYMENTS, WHICH MAY PERMIT A GRADUAL WORKING OFF OF THE OIL DEFICIT, HINGE LARGELY UPON RECOVERY FROM THE PRESENT ACTIVITY SLUMP THROUGH EXPANSION OF EXPORTS RATHER THAN DOMESTIC SPENDING. WITH AN UNEMPLOYMENT RATE CURRENTLY OVER 5 PERCENT, HIGHEST SINCE MID-50S, WHICH IS LIKELY TO PERSIST FOR MOST OF 1975, EFFORTS ARE BEING MADE TO ESTABLISH AN UNCLASSIFIED

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INCOMES POLICY IN ORDER TO HOLD DOWN PRODUCTION COSTS AND IMPROVE THE COMPETITIVE POSITION ON INCREASINGLY DIFFICULT EXPORT MARKETS. (THE PRESENT MINORITY MODERATE LIBERAL GOVERNMENT HAS RECAPITATED ELECTIONS FOR JANUARY 9 WITH HOPES OF RECEIVING A MANDATE FOR ITS ECONOMIC POLICY, INCLUDING ITS PROPOSALS FOR AN INCOMES POLICY.)

9. THE RELATIVELY OPTIMISTIC BALANCE OF PAYMENTS FORECAST FOR 1975 MUST BE VIEWED AGAINST THE BACKGROUND OF CONSIDERABLE UNCERTAINTY ABOUT INTERNATIONAL DEVELOPMENTS WITH REGARD TO BOTH ACTIVITY AND PRICE LEVELS. WITH THE DANISH DEPENDENCY UPON IMPORTED RAW MATERIALS, EACH

ONE PERCENT INCREASE IN OVERALL IMPORT PRICES
CUTS DOLS 100 MILLION FROM THE BALANCE OF PAY-
MENTS. ON THE OTHER HAND, EXPORTS CAN ONLY
RISE IF EXPANDING FOREIGN MARKETS EXIST, THE
DANES COUNT HEAVILY ON CONTINUING STRONG ECONO-
MIC ACTIVITY IN SWEDEN AND NORWAY; THEY ARE
ALSO ENCOURAGED BY THE GERMAN DECISION TO RE-
FLATE. IN ADDITION, THEY HAVE SOME HOPES FOR
EXPANDING THEIR EASTERN EUROPEAN AND MIDDLE
EASTERN TRADE. DUNNIGAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, ECONOMIC CONDITIONS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974COPENH03515
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740363-0472
From: COPENHAGEN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741238/aaaabfzs.tel
Line Count: 179
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 19 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 SEP 2002 by ReddocGW>; APPROVED <16 JAN 2003 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BALANCE OF PAYMENTS: NON-OIL DEFICIT DWINDLING BEGIN SUMMARY: DENMARK IS APPROACHING THE GOAL
TAGS: ETRD, EFIN, DA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005